



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:30 a.m. April 25, 2006. The following members were present:

Jody B. Olson  
J. Kirk Sullivan  
Clifford T. Hayes  
Jeff Cilek  
Pamela I. Ahrens

Executive Director Alan H. Winkle, Deputy Director Don Drum, Chief Investment Officer Robert Maynard, Investment Officer Richelle Sugiyama, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe and Management Assistant Joanne C. Ax were also in attendance. The electronic projection of materials and documents discussed in the meeting was handled by Betsy Griffith. Other persons attending portions of the meeting were:

Rod MacKinnon  
Dona Van Trease  
Bruce Reeder  
Geoff Bridges  
Larry Johnson  
Mike Boren  
Ron Davies  
Clint Benson  
Travis Pruitt  
Kevin Jones  
Brian McGrath

Mountain Pacific Investment Advisors  
IPEA  
MPIA  
Milliman  
EFIB  
Clearwater Advisors  
PFFI  
Arnerich Massena & Associates  
Arnerich Massena & Associates  
DBF  
DBF

Drew Black  
Jim Shakelford  
Naala Figueras  
Sara Gieseke

DBF  
IEA  
Clearwater Research, Inc.  
Clearwater Research, Inc.

## MINUTES

Approval of the Minutes: By motion duly made by Trustee Ahrens and seconded by Trustee Cilek, the Board unanimously approved the minutes of the March 28, 2006 meeting.

## PORTFOLIO

Monthly Portfolio Update: CIO Robert Maynard told the Board that there would be a meeting the following day of the investment subcommittee to discuss two new private equity partnerships recommended by Hamilton Lane.

In his report and presentation Mr. Maynard said April has shown a continuation in the generally favorable markets of this fiscal year. The major market action continues to revolve around perceptions about the length and magnitude of the Federal Reserve increases in the short term interest rates, with a big jump last week in response to indications that the Fed is at the end of the tightening cycle. There is, however, still a concern with rising oil prices, some perceived inflationary fears, and a potential slowdown in corporate profits (at 11.6% of GDP, one of the highest in decades). Bonds are still struggling as background concerns about an overheated economy and continued rate increases linger. The fund is generally up 1.7% this month and is up 15.4% for the fiscal year-to-date, continuing above the \$9.5 billion level. Emerging markets (although with noticeable weakness last month) and the Pacific equity markets are the best performing capital markets for the fiscal year-to-date. REITs have had some tough sailing lately.

Bernstein Emerging, Zesiger, and Genesis are the leading performers in absolute returns, although Bernstein Emerging and Genesis are behind their benchmarks. Zesiger, Bernstein Global and Barings Global are the best performers against benchmark. The bond accounts provide little to cheer about either absolutely or relatively. Tukman and Mondrian are the largest underperformers against benchmark. Private equity continues to have good absolute and relative performance.

Of PERSI's major strategic leanings, global equity managers and emerging markets are helping the most relative to the fund's strategic benchmark and with TIPS and (lately) REITs detracting. Overall, the fund is ahead of the strategic benchmark for the fiscal year by an exceptional 3.8%.

Mr. Maynard discussed a chart showing earnings since former Federal Reserve Board Chairman Greenspan's "irrational exuberance" speech in October 1996, tracking the increase in the value of one dollar since then. While PERSI investments suffered declines in 2002 when the markets fell, with the diversified investments the drop was much less than the general

market. Softening the downturn is as important as taking advantage of up markets. Mr. Maynard told the Board he does not expect a continuance of the stunning returns of the past 7-10 year period that we have enjoyed.

There was some discussion of cash holdings and manager styles.

Investment Manager Comments: Chairman Olson invited managers who were present to comment on the markets and the economy. Mike Boren believes the Fed is poised for a pause in interest rate increases, but only a pause. They expect a few more rounds of Fed tightening through year-end. He also noted that commodities are at all time highs even though purchasing managers are not reporting any shortages. Economist Brian McGrath reported that the world economy is robust. Americans are concerned with the war in Iraq, Iran and the pricing of oil; he agreed with the comments about speculation on commodities. Rod MacKinnon noted that global rates are increasing and housing boom is slowing. He believes that if the economy slows more than people expect, the stock market will move sideways. Trustee Ahrens asked about the construction industry. Mr. McGrath said there has been a terrific increase in cost of raw materials.

Other Business: Mr. Maynard said the annual commercial mortgage review is in progress and the report will be presented at the May meeting in Post Falls.

## FISCAL

Fiscal Update/ Administrative and Portfolio Reports: Financial Officer James Monroe reviewed the Administrative report saying all except one of our vacancies has been filled. We are considering constructing a building of the same quality as our current PERSI building at the 820 location. The Industrial Commission is considering renting space there for their agency. He will keep the Board informed as the process moves forward. Trustee Hayes asked whether such a building would result in a profit for the PERSI trust. Mr. Monroe and Mr. Winkle said it would. Discussing the Portfolio budget report, Mr. Monroe said legal expense is overspent from what we projected, but will not have a significant impact on the total expense ratio. Mr. Maynard expects those expenses to continue to run higher than in the past because of the work involved as we increase our private equity and real estate investments. There were no questions regarding the out-of-state travel report.

## EXECUTIVE DIRECTOR

Status Update: Mr. Winkle reviewed his status report memorandum dated April 19, 2006. A detailed report on the Business Process Re-Engineering Project had been provided by Stacy Jones. Imaging of the backfile microfiche is expected to conclude the first week or so of May.

Three vendors responded to our RFP for 401(k) recordkeeping. We are working with Callan as we review these proposals. We have also received three proposals for our outside independent actuarial audit to look at the experience study, the assumptions, and to do a duplicate actuarial audit to

ensure reasonableness and accuracy. We do this every 4 years. Proposals were received from GRS, Towers Perrin, and Cavanaugh MacDonald.

The final draft of the Conflict of Interest Policy Memorandum from the Attorney General was distributed earlier to the Trustees. PERSI staff is now exploring the types of insurance products that might be available to the Board to insure against risks not covered by the Tort Claims Act.

The Third Party Disability Administration contract has been awarded to VPA. They were our previous vendor. We received the final approval from the Division of Purchasing on April 4, 2006.

Portneuf Soil and Water District has voted to withdraw from PERSI effective May 1, 2006. They have only one employee.

Other Business: Noting that Brandes Investment Partners is hosting a conference this October, Chairman Olson encouraged Trustees to consider attending. The conference is nearby in California and will provide valuable investment education. Because we are a rural state yet have nearly 100,000 participants and because we manage nearly \$10 billion, Trustees need to keep abreast of industry practices and opportunities for education. Expecting several Trustees to attend, Chairman Olson asked to have the October Board Meeting changed to October 31, 2006. Ms. Ax will confirm that date with Trustees and process the change.

Chairman Olson presented Trustee Ahrens with a PERSI lapel pin commemorating her 25 years of service to the State of Idaho.

Legislative Update: PERSI legislation is being implemented by the staff. SB 1270 which amends the unused sick leave program is causing school administrators to re-examine their policies. We will continue to meet with them and listen to their concerns.

New Employer: By motion duly made by Trustee Sullivan and seconded by Trustee Cilek, the Board unanimously approved the admittance of two new employers to PERSI. Deer Creek Highway District and White Bird Highway District will both have effective entry dates of May 1, 2006.

#### COMMUNICATIONS:

2005 Member and Employer Surveys: Naala Figueras of Clearwater Research, Inc. presented a summary of customer service surveys in the areas of disability retirement, choice plan rollovers and loans, retirement and separation benefits. A high percentage of respondents were pleased with their contacts with PERSI staff. Mr. Winkle said are working to improve the process so we can send surveys within two weeks after a transaction and obtain a better response rate. Replying to a question from Chairman Olson, PAC Manager Judy Aitken said disability applications have increased to about 225 in the past year. Only one or two were denied.

Trustee Sullivan asked about the retirement workshops and how long before retirement we encourage attendance. Mr. Winkle said with seminars designed for just thinking about retirement, 10 years before and 5 years before, we encourage all members to attend a workshop. Betsy Griffith who handles workshop registration said about half of those attending the 5-year

sessions are actually in the retirement process while the other half plan to work a few more years. Trustee Hayes asked if there is a charge to attend the seminars. There is not if the member attends the workshop; a deposit is required to hold a spot in the class and it is returned when the member attends the class. Mr. Winkle said the current issue is being able to respond to the demand.

Regarding the comments on member difficulties with 401(k) rollovers, Mr. Winkle said when a member must deal with their current provider and also fill out forms to move their funds to the PERSI Choice plan, it is sometimes problematic. We include this process in our surveys to determine if members are experiencing difficulties with the PERSI side of the process.

#### FUTURE MEETINGS:

Trustee Hayes invited fellow Trustees and staff to tour the Post Falls Police department when they are in Post Falls for the May meeting.

May 23, 2006, 8:30 a.m., Red Lion Templin's on the River, Post Falls, ID

No June Meeting

July 25, 2006, 8:30 a.m., Boise – PERSI office

Adjournment: At 10:00 a.m., there being no further business to come before the Board, the meeting was adjourned.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director